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9 UNITED STATES DISTRICT COURT
10 NORTHERN DISTRICT OF CALIFORNIA
11 SAN FRANCISCO DIVISION

12 NETWORK CACHING TECHNOLOGY,
13 L.L.C.,

14 Plaintiff,

15 v.

16 NOVELL, INC.; VOLERA, INC.;
17 AKAMAI TECHNOLOGIES, INC.;
CACHEFLOW, INC.; and INKTOMI
18 CORPORATION,

19 Defendants.

CASE NO. C 01-2079 VRW

**DEFENDANT INKTOMI CORPORATION'S
REPLY BRIEF IN SUPPORT OF ITS MOTION
TO DISMISS PLAINTIFF NCT'S AMENDED
COMPLAINT DUE TO NCT'S LACK OF
STANDING "REDACTED"**

Date: May 30, 2002
Time: 2:00 p.m.
Judge: Honorable Vaughn R. Walker
Place: Courtroom 6, 17th Floor

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1 **I. INTRODUCTION**

2 NCT has not met its burden to show that it possesses all substantial rights in the patents-
3 in-suit, as required by Rules 12(b)(1) and 12(b)(7). A plain reading of the Patent Assignment and
4 License Agreement (“Agreement”) shows that Inca also possesses substantial rights to the
5 patents-in-suit.

6 Specifically, Inca has the following substantial rights in the “File System Field”:

- 7 • Inca may *sublicense* the patents-in-suit *without NCT’s approval*
- 8 • Inca can *preclude NCT from granting licenses* under the patents-in-suit
- 9 • Inca may *independently initiate and control lawsuits* for infringement of
10 the patents-in-suit
- 11 • Inca may *join with NCT in any lawsuit* for infringement that NCT
12 initiates, using its own counsel if it desires

12 Since the signing of the Agreement, both NCT and Inca have recognized that Inca
13 possesses substantial rights. For example:

- 14 • Jane Mitchell, NCT’s president, recognized potential customers may have
15 obligations to both NCT and Inca if they wish to purchase patented
16 products
- 17 • William Pitts, Inca’s founder, understood the Agreement to provide Inca
18 with exclusive exclusionary rights under the patents in suit

18 In its opposition, NCT attempts to parse out the rights held by Inca, arguing that each
19 right, individually, is not substantial. It is important, however, that the Court consider the entire
20 grant to Inca as a whole, rather than looking at each individual right in a vacuum. Taken as a
21 whole, and particularly based upon Inca’s exclusionary rights, there is little question that NCT
22 lacks standing to pursue its claim. Because of the substantial rights held by Inca, NCT lacks
23 proper standing and this case should be dismissed.

24 **II. ARGUMENT**

25 The undisputed evidence reveals that Inca (a company founded and largely owned by
26 William Pitts) possesses substantial rights in the patents-in-suit, thereby defeating NCT’s
27 standing to pursue its claim. NCT raises two interrelated arguments in attempting to refute this
28

1 evidence: (1) NCT has been assigned full rights, title and interest in the '049, '914, '452, and '234
 2 patents by Inca and Pitts, and (2) the rights that Inca is acknowledged to possess are not
 3 "substantial."¹ These arguments are inconsistent with both the facts and the applicable law.

4 **A. The Agreement gave Inca substantial rights in the patents-in-suit.**

5 NCT incorrectly argues that the Agreement effected a complete assignment to NCT.
 6 Specifically, NCT fails to address the actual legal effect of that Agreement taken as a whole.

7 **1. The express language of the assignment gives Inca substantial rights.**

8 Inca holds significant exclusionary rights in the patents-in-suit, including rights within the
 9 File System Field to: 1) sublicense the patents-in-suit without NCT's approval; 2) withhold
 10 consent to NCT's granting licenses under the patents-in-suit; 3) initiate and control lawsuits for
 11 infringement of the patents-in-suit and bind NCT to the result of any such litigation; and 4) join
 12 with NCT in any lawsuit for infringement that NCT initiates, using its own counsel if it desires.
 13 Chatterjee Dec., Ex. 1.

14 Control over an exclusionary right is indicative of a substantial right in a patent. *Prima*
 15 *Tek II v. A-Roo Co.*, 222 F.3d 1372, 1380 (Fed. Cir. 2000) (holding that licensee did not have
 16 standing due to the obligations to sublicense rights to another party and the retention of rights by
 17 patentee); *see also Abbott Laboratories v. Diamedix Corp.*, 47 F.3d 1128, 1132 (Fed. Cir. 1995)
 18 (A "licensee" possesses substantial rights in a patent from the "licensor" if it can: 1) bring its own
 19 infringement actions, 2) prevent the licensor from assigning its rights under the license to any
 20 party other than a successor in business, and 3) participate in a suit brought by the licensor).

21 Indeed, the Federal Circuit has recently confirmed that "limits on a transferee's
 22 assignment rights *weigh in favor* of finding that an agreement constitutes a transfer of fewer than
 23 all substantial rights in a patent." *Intellectual Property Dev., Inc. v. TCI Cable Vision of*
 24 *California*, 248 F.3d. 1333, 1345 (Fed. Cir. 2001) (emphasis added). Accordingly, Inca's
 25 retention of exclusionary rights demonstrates that it retained rights in the patents-in-suit so
 26

27 ¹ NCT also includes discussion concerning Rule 19. However, it provides no explanation
 28 of the relevance of Rule 19 to the present motion.

1 substantial that NCT lacks standing to sue on its own.

2 2. **The statements of Inca and NCT indicate an intent to give Inca**
 3 **substantial rights.**

4 NCT's and Inca's statements prior to and concurrent with the filing of the present lawsuit
 5 confirm that NCT and Inca recognize that NCT does not hold all substantial rights in the patents-
 6 in-suit. NCT proffers no evidence to the contrary.

7 a. **NCT understood Inca to have substantial rights in the patents-**
 8 **in-suit.**

9 REDACTED REDACTED REDACTED REDACTED

10 b. **Inca understood that it had substantial exclusionary rights in**
 11 **the patents-in-suit.**

12 Not only did NCT understand that Inca had substantial rights in the patents in suit,
 13 particularly in the File System Space, but Inca understood this as well. In an e-mail from Pitts to
 14 Garth Gibson written after the execution of the Agreement, Pitts described Inca's intellectual
 15 property and stated explicitly that "Inca has retained the *exclusive rights to operate in the file*
 16 *system field* (as opposed to the web space) *under the following patents:*" Pitts then goes on to
 17 list the very patents-in-suit: the '049, '914, '452, and '234 patents. Chatterjee Dec., Ex. 2. This
 18 statement could not be more clear: the Agreement gave Inca substantial, even exclusive, rights
 19 under the patents-in-suit to operate in the file system space.

20 A recent Inca business plan (dated in October 2001, after the Agreement was signed) also
 21 illustrates that Inca understands that it has substantial exclusionary rights in the patents-in-suit.
 22 Chatterjee Dec., Ex. 3. Under the subheading "Patent Protection Will Secure Inca's Position," the
 23 plan listed six patents, four of which are the patents-in-suit, and concluded that "[a]ltogether the
 24 *Inca patent portfolio presents a formidable barrier* to entry to any would be trespassers." *Id.*
 25 Inca's statements reflect the substantial exclusionary rights possessed by Inca to the patents-in-
 26 suit.

27 B. **Inca's rights are not a minor derogation.**

28 1. **The right to sue is not a minor derogation of rights.**

NCT claims that the "right to sue" conveyed to Inca is a minor derogation of rights

1 because NCT has only granted a “non-exclusive” license. NCT is wrong on the facts of this case
2 and the law.

3 Under the Agreement, Inca is entitled to initiate litigation, sublicense, and reap the
4 financial and exclusionary rewards within the “File System Field,” regardless of the semantics of
5 the “non-exclusive” license.² See *Abbott*, 47 F.3d at 1132 (ability to “indulge infringements”
6 important part of right to exclude). These rights, taken together, severely limit NCT’s
7 exclusionary rights in the patents-in-suit. *Id.* (looking to the actual rights transferred under
8 exclusive license to determine issue of standing); *Vaupel Textilmaschinen KG v. Meccanica Euro*
9 *Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991) (“It is well settled that whether a transfer of a
10 particular right or interest under a patent is an assignment or a license does not depend upon the
11 name by which it calls itself, but upon the legal effect of its provisions”); *Advanced*
12 *Cardiovascular Systems v. SciMed Life System*, 40 U.S.P.Q.2d 1286 (N.D. Cal.1996) (“The
13 particular name give to an agreement does not control its construction as a license or an
14 assignment”). Indeed, under this structure, NCT has no ability to control licensing in the File
15 System Field at all. The final decision over the patents use in the “File System Field” rests solely
16 with Inca.

17 Moreover, Inca also has the right both to notify NCT of its belief of infringement, and to
18 participate in *any* litigation brought by NCT, regardless of whether it relates to the File System
19 Field or not. The litigation right that Inca possess is a factor suggesting that NCT does not
20 possess all substantial rights in the patents-in-suit. *Intellectual Property*, 248 F.3d at 1344.

21 a. **Ortho does not support NCT’s position that the Agreement does**
22 **not confer substantial rights on Inca.**

23 NCT cites *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026 (Fed. Cir.
24 1995), for the proposition that the grant to Inca of the right to independently initiate and control
25 litigation to enforce the patents-in-suit within the File System Space is ineffective. NCT goes so

26 ² Indeed, under the Agreement, Inca is given the right to participate in litigation if it
27 chooses and is obligated to assist NCT in NCT-initiated litigation. See Chatterjee Dec., Ex. 1 §
28 7(c)(i), 7(c)(ii) (at NCT 12557-12558).

1 far as to claim that, contrary to the express language of the Agreement, “Inca cannot sue in its
 2 own name, or even join suit as a party, because it only has a non-exclusive license which lacks
 3 sufficient patent rights to confer any standing to Inca.” NCT Opp. pp. 13-14. NCT maintains that
 4 because its grant to Inca is called a “non-exclusive license,” that nomenclature is dispositive of
 5 the significance of that grant.³ NCT concludes that Inca is, therefore, precluded from ever
 6 bringing or joining a lawsuit to enforce the patents-in-suit. This simplistic reading of *Ortho* is
 7 simply wrong.

8 The *Ortho* court held that a contractual provision purportedly granting Ortho the right “to
 9 bring, defend, and maintain any appropriate suit or action [to enforce the patents at issue]” was
 10 ineffective because Ortho did not otherwise possess sufficient exclusionary rights. *Ortho*, 52
 11 F.3d at 1034. The parties in *Ortho* termed the transfer of rights an “exclusive license.” The
 12 court, however, looked beyond what the grant was called and determined that the transfer was
 13 actually only a non-exclusive implied license to use the invention of the ‘008 patent in one
 14 location in the United States. *Id.* at 1033. In light of the limited scope of Ortho’s license grant,
 15 the court found it unreasonable to enforce an overly-broad “right to sue clause” with no
 16 limitations, geographic or otherwise. The court reasoned that a broad, unlimited right to sue
 17 clause simply was not commensurate with the licensee’s other limited rights in the patent.
 18 Accordingly, the right to sue clause, standing on its own, could not grant Ortho standing to
 19 enforce the ‘008 patent.

20 While NCT’s grant to Inca may purport to be a “non-exclusive license,” the substantial
 21 rights granted to Inca prove otherwise. The Agreement has been carefully crafted and worded
 22 such that Inca’s right to sue is completely consistent with, and tied to, its other exclusionary rights
 23

24 ³ Nomenclature is not determinative of the effect of a transfer. The Federal Circuit has
 25 repeatedly held that a court cannot rely on the name given to a particular transfer, but must look
 26 to the substance of an agreement to determine what rights actually have been transferred. See
 27 *Prima Tek II*, 222 at 1378; see also *Ortho*, 52 F.3d 1026; *Abbott Labs.*, 47 F.3d at 1132; *Vaupel*,
 944 F.2d at 875; *Advanced Cardiovascular Systems v. SciMed Life System*, 40 U.S.P.Q.2d 1286
 (N.D. Cal. 1996).

1 in the patents-in-suit. NCT has explicitly carved out and given Inca complete control of the rights
 2 in the patents-in-suit within the File System Field. Inca has the right to veto licenses within the
 3 field and the ability to sublicense within the field. Inca's ability to initiate and control litigation
 4 enforcing the patents within the field parallels and is commensurate with those other rights. The
 5 "right to sue" provision, therefore, does not stand on its own, rather it is meant to be read in
 6 conjunction and consistent with Inca's other exclusive rights in the File System Field.⁴ Indeed, as
 7 noted, Inca itself does not characterize its rights within the File System Field as being
 8 nonexclusive. Chatterjee Dec., Ex. 2.

9 **b. ACS does not support NCT's position that a "right to sue" is a**
 10 **minor derogation.**

11 NCT also relies on *Advanced Cardiovascular Systems v. SciMed Life System*, 40
 12 U.S.P.Q.2d 1286 (N.D. Cal. 1996) ("ACS") to support its position that a "right to sue" covenant is
 13 simply a "minor derogation of rights." The inventor in ACS had substantially different rights than
 14 Inca.

15 In ACS, the inventor transferred all exclusive rights in his patents to ACS. ACS
 16 subsequently licensed back certain rights to the inventor. The court found this license back
 17 insufficient to strip ACS of its substantial rights in the patent. *Id.* at 1290-91. Again, the court in
 18 ACS stated that "[w]hether a transfer constitutes a sale or a license is determined by the substance
 19 of the transaction. . . . The particular name given to an agreement does not control its construction
 20 as a license or an assignment. . . ." *Id.* at 1289-90. The substance of the "license back" from
 21 ACS to the original inventor clearly did not provide the inventor with substantial rights in the
 22 patents at issue. Unlike Inca, he was not given the ability to grant sub-licenses, nor did it appear
 23 that he had veto power over ACS's grant of licenses. More importantly, however, is the fact that

24 ⁴ *Ortho* is also procedurally distinguishable as the plaintiff in *Ortho* tried to intervene in a
 25 prior case brought by its licensor, Amgen. *Ortho* did not, however, inform the Court in the prior
 26 action that it purportedly had a right to sue when *Ortho* intervened. Based upon an incomplete
 27 record, *Ortho* was denied the opportunity to intervene. When *Ortho* initiated a second action, the
 28 court held that *Ortho* could not pursue a separate action from Amgen, because it did not have
 sufficient rights to proceed without Amgen as a party.

1 the inventor could not, under any circumstances, independently initiate and control litigation to
 2 enforce the patents at issue. Rather, he was required to obtain ACS's authorization before filing
 3 such an action. *Id.* at 1290. The court appeared to find this limitation highly persuasive in
 4 determining that ACS maintained substantial exclusionary rights in the patents and that the
 5 "license back" did not grant the inventor substantial rights.

6 While the Agreement in this case does appear to initially grant NCT "all right, title and
 7 interest" in the '049, '914, '452 and '234 patents, NCT contemporaneously relinquishes
 8 substantial rights in the patents to Inca. Unlike the *ACS* case, Inca has the ability to sublicense
 9 within the File System Field and NCT is required to obtain Inca's approval before it can grant
 10 licenses within the File System Field. *c.f. Mentor H/S, Inc. v Medical Device Alliance, Inc.*, 240
 11 F.3d 1016, 1018 (Fed. Cir. 2001) (assignor's right to independently developed and manufacture
 12 products for sale to exclusive licensee, and to supervise and control exclusive licensee's own
 13 product development, was indicia that exclusive licensee did not possess substantially all rights in
 14 the patent). An even greater distinction from the *ACS* agreement is that, under the present
 15 Agreement, Inca has the right to independently initiate and control litigation, without NCT's
 16 approval. Moreover, NCT is bound by the results of such litigation.

17 **2. "Veto" power is not a minor derogation.**

18 In its opposition, NCT argues that Inca's "veto" power is merely a "minor derogation
 19 from the grant of rights." NCT Opp. pp. 16-17. In support of this argument, NCT relies heavily
 20 upon *Vaupel*. This reliance is misplaced. The rights at issue in *Vaupel* are much less substantial
 21 than those possessed by Inca. In addition to the right to veto licenses (rather than sublicenses),
 22 Inca possesses the affirmative right to sublicense and initiate litigation, rights not possessed by
 23 the *Vaupel* licensor. Indeed, the *Vaupel* court found the fact that the licensor (Marvosky) had not
 24 retained the right to sue "particularly dispositive here because the ultimate question confronting
 25 us is whether Marvosky must be joined." 944 F.2d at 875. Unlike Marvosky, Inca controls all
 26 exclusionary rights in the File System Field.

1 **3. Payment of damages is irrelevant.**

2 Relying on the Agreement, NCT incorrectly argues that any and all monetary recovery
3 from such litigation goes solely to NCT. NCT Opp. p. 5. The Agreement actually reads:

4 Notwithstanding any joinder or other participation by the other parties to this
5 Agreement in any lawsuit for patent infringement *filed by NCT*, or any negotiation
6 or other agreement *negotiated by NCT* concerning a license to the Caching Patents
7 or Network Infrastructure Patent, *except for sublicensing in the File System*
8 *Space negotiated in conjunction with the sale or use of Inca's proprietary*
9 *products and/or systems*, any payments or other recovery for patent infringement,
10 whether by settlement or otherwise, shall be paid solely and exclusively to NCT
11 and shall not be divided between the parties.

12 Geyer Dec., Ex. I, § 7(C) at NCT 12558. Although the provision grants NCT the full recovery of
13 damages from any patent infringement suit that *NCT initiates*, the Agreement is silent as to which
14 party receives the benefit of monetary recovery if *Inca initiates* the litigation. A more probable
15 reading would provide Inca with full recovery for any patent infringement lawsuit that Inca
16 initiates.⁵

17 Moreover, the Federal Circuit recently clarified that the “right to receive infringement
18 damages is a neutral factor” in assessing whether the assignee has standing. *Intellectual*
19 *Property*, 248 F.3d. at 1344, n.11; *see also Vaupel*, 944 F.2d at 875 (“the right to receive
20 infringement damages is “merely a means of compensation under the agreement.” Accordingly,
21 financial recovery is not necessarily indicative of the ownership of substantial rights.

22 **C. NCT mischaracterizes the assignment rights in the patent-in-suit.**

23 NCT argues that it is not prevented from assigning its rights in the patents-in-suit. In
24 support, NCT refers to ¶¶ 4(B) and 11 of the Agreement. Neither of these sections states that
25 NCT is free to assign all rights in the patents. To the contrary, these paragraphs only serve to
26 support the conclusion that NCT is not free to assign all rights in the patents and, instead, Inca has
27 substantial rights in certain aspects of the patents-in-suit.

28 Moreover, ¶ 11 of the Agreement is a standard survival clause. The fact that the

⁵ In fact, documents produced by William Pitts support this interpretation of the payment provision. In dividing the “patent infringement litigation space” within the Agreement, Pitts intended for Inca to “get[] the recovery” for any litigation or negotiation controlled by Inca within the File System Field. Chatterjee Dec., Ex. 1 at PITTS-03-0119226.

1 agreement “shall be binding upon and inure to the benefit of the Successors and assigns of the
2 parties hereto” in no way indicates one way or the other that NCT is free to assign its interests in
3 the patents-in-suit without Inca’s consent.

4 **D. Extrinsic evidence of NCT’s and Inca’s understanding of the Agreement is**
5 **consistent with Inktomi’s interpretation.**

6 NCT claims that any statements made or actions taken by Inca or NCT with respect to the
7 Agreement are inadmissible parole evidence. NCT misstates the law and fails to appreciate the
8 facts.

9 **1. NCT’s and Inca’s statements are consistent with the Agreement and**
10 **reflect the intentions of the parties.**

11 Contrary to NCT’s position, the representations of NCT president Mitchell and Inca
12 founder and co-owner Pitts are not parole evidence. Rather, they are admissible evidence of the
13 intentions of the parties in entering into the subject Agreement as well as performance under the
14 Agreement. *See Southern California Edison v. Superior Court*, 44 Cal. Rptr. 2d 227, 234 (Ct.
15 App. 1995) (“The rule is well-settled that in construing the terms of a contract the construction
16 given it by the acts and conduct of the parties with knowledge of its terms, and before and
17 controversy has arisen as to its meaning, is admissible on the issue of the parties’ intent. . . .
18 [T]his rule is not limited to the joint conduct of the parties in the course of performance of the
19 contract.”); *Fisher v. Allis-Chalmers Corp. Product Liability Trust*, 116 Cal. Rptr. 2d 310, 318
20 (Ct. App. 2002) (“Parol evidence of ‘subsequent acts and conduct of the parties’ may be relevant
21 to contract interpretation because it manifests the mutual intention of the parties about how their
22 contract should be applied.”).

23 Statements by Mitchell and Pitts are entirely consistent with Inktomi’s interpretation of
24 the Agreement, and it is clearly permissible for the Court to consider the circumstances
25 surrounding the Agreement and intentions of the parties in entering into the Agreement in
26 determining what the Agreement actually conveys. *See* Cal. Civil Code §1647; Cal. Code Civ.
27 Proc. §§ 1860, 1856(g). This is especially true considering that the Federal Circuit has repeatedly
28 held that the label put on the Agreement is irrelevant – it is the “intention of the parties” and the

1 “substance of what was granted” that is dispositive. *Prima Tek II*, 222 F.3d at 1378; *see also*
 2 *Ortho*, 52 F.3d 1026 (Fed. Cir. 1995) (court did not merely rely on the name given a purported
 3 “licensing agreement” and looked to the substance of an agreement to determine what rights had
 4 been transferred); *Abbott Labs.*, 47 F.3d at 1132.

5 **2. Prior statements by Mitchell and Pitts are consistent with the**
 6 **Agreement.**

7 The statements of the contract negotiators are admissible. Contrary to NCT’s assertions,
 8 Inktomi’s use of extrinsic evidence to further illuminate the legal effect of the Agreement is
 9 proper. Inktomi is not using the evidence to contradict any term of the Agreement, rather the
 10 evidence brings to light the circumstances under which the Agreement was executed and the
 11 parties’ subsequent statements concerning their understanding of the legal effect of the
 12 Agreement. Under California law, “[a] contract may be explained by reference to the
 13 circumstances under which it was made, and the matter to which it relates,” Civil Code § 1647.
 14 Simply put, “[u]nder the California parol evidence rule a party is entitled to introduce any
 15 extrinsic evidence which may aid in an interpretation of a written contract. . . . The test is not
 16 whether the agreement appears to the court to be clear and unambiguous on its face, but whether
 17 the extrinsic evidence is offered to support a meaning to which the language of the instrument is
 18 reasonably susceptible.” *Pacific Gas & Electric v. Zuckerman*, 234 Cal. Rptr. 630, 1140-41 (Ct.
 19 App. 3d Dist., 1987).

20 The extrinsic evidence Inktomi seeks to use to better understand the terms of the
 21 Agreement is fully consistent with the language used by the parties to the Agreement.

22 **III. CONCLUSION**

23 For the reasons set forth above and in its moving papers, Inktomi moves the Court to
 24 dismiss NCT’s Amended Complaint pursuant to Rules 12(b)(1) and 12(b)(7).

25 /////

26 /////

27 /////

1 Dated: May 16, 2002

Respectfully submitted,

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4 /S/

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6 Attorneys for Defendant Inktomi Corporation
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